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Impact Fees: The "Welcome, Stranger" Tax

By Ron Schaftel

Here's an unsavory recipe: Combine population growth with politics and property tax caps. What do you get? Impact fees.

The term covers a grab bag of assorted fees for water, sewer, roads, schools, etc., assessed to builders and developers when they apply for permits. Home builders have no choice but to pass them along to their customers - home buyers.

The fees are ostensibly assessed to pay for new development, but municipalities sometimes try to use them for projects they've been considering for a while, ones that will benefit existing homeowners, too. And they've been known to charge more money than they need. That's when things get ugly.

"Impact fees are a means of politically passing the brunt of paying for infrastructure on to prospective homeowners," explains Keyvan Izadi, a land use planner for the National Association of Home Builders (NAHB). Also known as the "Welcome, Stranger" tax, the fees are frequently proposed by mayors who don't want to pass infrastructure costs along to the voting public - and possibly hurt their chances for re-election. And sometimes they're proposed by anti-growth city officials who want to stop development in its tracks. The fees are particularly prevalent in fast-growth areas and in municipalities with property tax caps.

The Chicago-based American Planning Association puts the national average for cumulative impact fees at \$14,441 per dwelling unit. Fees top \$100,000 in some parts of California. Since they're added to a mortgage with interest, the net impact is even higher.

No matter how much they are, impact fees bump up construction costs and hurt housing affordability. Jim Christo, a remodeler and builder in Lincoln, Neb., expects business will drop off by 20-30% if the city's planning commission enacts a \$2,500-per-unit impact fee ordinance in June 2003. NAHB's economics department has determined that, nationwide, every \$1,000 in housing costs prices about 400,000 would-be buyers out of the market.

The good news is there's plenty builders can do to help their home builder associations fight unfair impact fees. And, if infrastructure fees are already a way of life where you build, you can help your customers cope with them. Here's what to do:

- Educate yourself. "Most builders don't take the time to fully educate themselves about impact fees," says Christo. "Learn enough to understand how they will impact your bottom line." You can then get the word out to other builders in your area.

- Educate the public. Write letters to the editor of your local newspaper. Tell voters how impact fees negatively affect the town's economy: They reduce homeownership rates, which hurts local businesses and can contribute to unemployment. Even worse, they eventually drive up prices of existing houses when that's all people can afford to buy.

With enough information, the public may pressure the city not to enact impact fees. And maybe they won't re-elect an anti-growth politician the next time around.

- Get involved on the city planning commission. Ask other builders, trade contractors, suppliers and construction lenders to do so, too. That way, you'll have advance knowledge of any proposed infrastructure costs. And you and your peers can encourage the commission to explore impact fee alternatives like sales tax increases.

- Don't go it alone. "It's a divide-and-conquer issue," says developer and builder Jeff Prostor, who pays impact fees of \$20,000 to \$50,000 in Orange County, Calif. "If you try to fight a fee on your own, the city will not provide you services. They will sit on your permits."

- Work with your local association. The Home Builders Association of Maryland (HBAM) is already hot and heavy on the issue. "Let the association be the Óbad guy' for you," says Robert Morris, executive director of the Home Builders Association of Greater Dallas. "We're never going to have to pull permits."

- Get an advocate. If you know of an ace accountant or attorney, suggest the person to your local association. The Home Builders Association of Lincoln, Neb., hired a CPA to review the city's financial situation. "By having a professional look at their figures, we found that they don't need any impact fees," says executive vice president Nadine Condello. The CPA will testify before Lincoln's planning commission.

- Watch the numbers. If impact fees are adopted, watch closely to make sure they are administered correctly. Several HBAs have successfully challenged this aspect of impact fees in court.

- Tell homeowners up front. Unfortunately, there's no getting around impact fees in areas where growth boomed years ago. But you can soften the blow to customers if you tell them about the fees while you're discussing the construction budget. That's what Robert Short does in Denver, where fees average \$17,000 a unit.

"I tell them, ÓThis is what it will take to get your permit," says Short, president of Touchstone Homes, who generally uses fixed-fee contracts. Even with cost-plus projects, it's good to spell out impact fees beforehand so customers won't be shocked by huge line items.

"They have a high level of frustration when they realize how much goes to the government," Short says of his customers. "But they accept it as a cost of doing business."

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